City of Boston Assessing Department
Valuation Guidelines
September 2002

Multi-Family and Small Residential Properties
Featuring an Affordable-Housing Component

(Massachusetts General Laws Chapter 59)

SUMMARY

The purpose of this document is to explain the procedures the City of Boston Assessing Department uses with respect to the valuation of multi-family properties (including mixed-use properties) and small residential properties featuring permanent deed restrictions or limited-equity provisions to maintain affordability.

These guidelines also describe what project documents the Assessing Department requires to conduct an adequate review of any development and thereby establish a proper, fair-market assessment.

Developers, lenders, equity providers, City agencies and other parties interested in residential development in Boston should find the information herein useful for planning and lending purposes.

CONTACT

For further information on the valuation of properties such as those described in these guidelines, contact Richard A. Cohen, Chairman of the Board of Review, City of Boston Assessing Department at (617) 635-4260.

BACKGROUND

City of Boston Assessing Department

The mission of the City of Boston Assessing Department is to accurately determine the value of all real and personal property located within the City of Boston for the purpose of taxation. The Assessing Department is statutorily obligated under law to all assess all property at its full and fair cash value as of January 1 of each year (Massachusetts General Laws, Chapter 59, Section 58). The Assessing Department is also responsible for the administration of all property tax data records. It maintains accurate parcel ownership data, based upon recorded property transactions at the Registry of Deeds, and all map data pertinent to accurate parcel identification.

Valuation of Real Property

The City of Boston Assessing Department values real property at its full and fair cash value. The job of the assessor is to determine the market value of every parcel of property as of January 1 each year.

In practice, there are three accepted approaches to value: market, income and cost. For the valuation of affordable rental housing, the income approach is relevant. This approach considers the income stream that a property is likely to produce for an investor over a definite period. That income stream is determined by examining such market data as rents, occupancy rates and expenses. The process of capitalization converts the future income stream into present worth, or market value.

GUIDELINES

Introduction

The valuation guidelines outlined in this document are consistent with the mission of the City of Boston Assessing Department, as described above. These guidelines are based on Massachusetts General Laws, Chapter 59, Massachusetts Department of Revenue guidelines, and relevant court decisions.

Most guidelines delineated in this document pertain to the valuation of multi-family properties (including mixed-use properties) featuring specific types of affordable-housing provisions. The section of this document entitled "Note on Small Residential Properties" addresses guidelines pertaining to other residential properties with affordability restrictions, such as one-, two- and three-family houses, as well as residential condominium units.

Assessing Policy
It is the policy of the City of Boston Assessing Department to take into account, for purposes of valuation, any permanent deed restriction affecting market value as set forth in the recorded deed of multi-family properties and mixed-use (residential/commercial) properties. (A recorded deed is a deed displaying the applicable book-and-page and date stamps of the Suffolk County Registry of Deeds.)

Permanent Deed Restrictions
Assessing policy as described above applies only to a *permanent* deed restriction. For purposes of valuation, a deed restriction is considered permanent if it is a) a covenant associated with the property itself, and not with any mortgage, any specific owners or ownership, and b) a covenant in effect for a minimum of twenty-five years.

Relevant Assessment Standards
The essence of deriving a market value for a property involves three key variables: the income, the expenses, and the capitalization rate, or cap rate. In its simplest form, a property's effective gross income is the starting point. From this, an allowance for operating expenses is subtracted to yield the net operating income. An appropriate capitalization rate, incorporating such elements as market risk and property risk, is applied to the net operating income; this results in a market value for the property.

As outlined in the attached Exhibits A and B, these guidelines allow for a decreased valuation for affordable developments and therefore result in a lower tax assessment; specifically:

- The guidelines recognize **actual rents** for affordable units;

- The guidelines provide for a **higher expense ratio** for the subsidized units. This is done to bring the expense amount for subsidized units up to a level comparable to that of market units;

- The guidelines include an **increased capitalization rate** that recognizes a higher return to compensate for the restriction in income;

- The net result is a lower value calculation and therefore lower tax payments for market units in mixed-income properties.

Project Notification
Developers are encouraged to make contact with the Assessing Department and other City officials as early as possible in the development process so that Assessing may have sufficient opportunity to review all necessary project details. With the large number of variables involved with property valuation and project financing, it is essential for Assessing to deal with such properties on a case-by-case basis.

Depending on the particulars of a project, Assessing may require several documents for its review, including but not limited to the following: operating budget statements, income/expense statements, audited financial statements, and debt service statements.

NOTE ON SMALL RESIDENTIAL PROPERTIES

It is the policy of The City of Boston Assessing Department to take into account, for purposes of valuation, any limited-equity provision affecting market value as set forth in the recorded deed of residential properties. (A recorded deed is a deed displaying the applicable book-and-page and date stamps of the Suffolk County Registry of Deeds.) Such provisions apply typically to *small* residential properties, such as one-, two- and three-family houses, and residential condominium units.

In the normal course of its business, the Suffolk County Registry of Deeds forwards all deed documents to Assessing, which then reviews the documents. While it is typical for Assessing to discover any limited-equity provisions in deed documents during this review, the department also receives some supplemental notification to this effect from the Boston Redevelopment Authority and the City of Boston Department of Neighborhood Development as the provisions are created. This notification helps to ensure that the assessed value of any limited-equity property reflects accurately the limited-equity provision.

Upon discovery of the limited-equity provision, Assessing records it in its valuation system, where it becomes part of the record for the parcel in question. The resulting assessed value of that parcel accounts for the limited-equity provision.

In the event that any limited-equity provision does not appear to have been taken into account for purposes of valuation, recorded deed documents to that effect must be submitted to Assessing for review before any corrections to the parcel record are made. Any protest of the assessed value of a residential property subject to a limited-equity provision must be made in the form of an application for abatement on or before the applicable deadline, pursuant to Massachusetts General Laws, Chapter 59, Section 59.

MASSACHUSETTS STATUTORY PROVISIONS

VALUATION OF AFFORDABLE HOUSING

Massachusetts General Law chapter 59, section 11, provides that restricted portions of a property be separately assessed, i.e., in determining valuation, the Assessing Department will consider restrictions on property that is used solely for affordable housing. Conversely, any portion of the housing project property that is not used as affordable housing will be valued separately without taking into consideration any deed restrictions. Additionally, Massachusetts General Law chapter 59, section 38, provides that restrictions of the use of property may reduce its value below the value that would otherwise be appropriate in the absence or deed restrictions.

The Massachusetts Supreme Judicial Court has ruled that restrictions placed by Federal regulations on the rent a development company could actually receive from a housing project must be taken into account in determining the value of property used for affordable housing purposes. (See, Community Development Company of Gardner v. Board of Assessors of Gardner, 377 Mass. 351 (1979))

DEFINITION OF "AFFORDABLE HOUSING RESTRICTION"

Massachusetts General Law chapter 184, section 31 (G.L. c.184 § 31), defines an affordable housing restriction as a right (1) to limit the use of all or part of the land to occupancy by persons or families of low or moderate income in either rental or other housing, or (2) a right to restrict the resale price of all or part of the property in order to assure its affordability by future low and moderate income purchasers, or (3) a right to restrict or limit the use and enjoyment of all or part of the property for the purposes of encouraging or assuring creation or retention of rental and other housing for occupancy by low or moderate income families and persons. These rights may be established by deed restrictions either in perpetuity or for a specified number of years.

NOTICE

Local property taxes are governed by state law and by case law as determined by the state Appellate Tax Board. This document in no way overrides or amends state law. *To the extent, if any, that this document is inconsistent with state law, it is state law that controls any matters addressed herein.*

For illustration purposes only

Exhibit A

ABC Market Housing Corporation
All Units at Market Rents

Unit Type	Number of Units	Rent	Gross Income	Expenses	Net Income
Studio	82	$ 1,940	$ 1,908,960	**29%**	$ 1,355,362
1 Bedroom	138	$ 2,400	$ 3,974,400	**29%**	$ 2,821,824
2 Bedroom	90	$ 2,930	$ 3,164,400	**29%**	$ 2,246,724
Totals	310		$ 9,047,760		$ 6,423,910

Summary

Net Income	$ 6,423,910
Cap Rate *	**9.4%**
Value	$ 68,339,464
Rounded Value	$ 68,339,000
Taxes @ $11.01 Per Thousand	$ 752,412
Taxes as Per Cent of Gross Income	8.32%
Taxes Per Unit	$ 2,427

* Overall cap rate - includes tax factor

For illustration purposes only

Exhibit B

ABC Affordable Housing Corporation
80 Per Cent of Units at **Market** Rents,
20 Per Cent of Units at **Affordable** Rents

Unit Type, Market	**Number of Units**	**Rent**	**Gross Income**	**Expenses**	**Net Income**
Studio	66	$ 1,940	$ 1,536,480	**29%**	$ 1,090,901
1 Bedroom	110	$ 2,400	$ 3,168,000	**29%**	$ 2,249,280
2 Bedroom	72	$ 2,930	$ 2,531,520	**29%**	$ 1,797,379
Unit Type, Affordable					
Studio, Low-Income	12	**$ 1,039**	$ 149,580	**39%**	$ 91,244
Studio, Very Low-Income	4	**$ 779**	$ 37,368	**45%**	$ 20,552
1 Bedroom, Low-Income	21	**$ 1,188**	$ 299,250	**41%**	$ 176,558
1 Bedroom, Very Low-Income	7	**$ 891**	$ 74,844	**47%**	$ 39,667
2 Bedroom, Low-Income	14	**$ 1,335**	$ 224,280	**43%**	$ 127,840
2 Bedroom, Very Low-Income	4	**$ 1,002**	$ 48,096	**48%**	$ 25,010
Totals	310		$ 8,069,418		$ 5,618,431

Summary

Net Income	$ 5,618,431
Cap Rate *	**10.3%**
Value	$ 54,547,869
Rounded Value	$ 54,548,000
Taxes @ $11.01 Per Thousand	$ 600,573
Taxes as Per Cent of Gross Income	7.44%
Taxes Per Unit	$ 1,937

* Overall cap rate - includes tax factor